

Health and Human Resources Budget Pressures for the 2020 Session

Annual Meeting

November 22, 2019

Presentation Overview



Medicaid and Children's Health Insurance Trends



Behavioral Health Census Pressure and Redesign

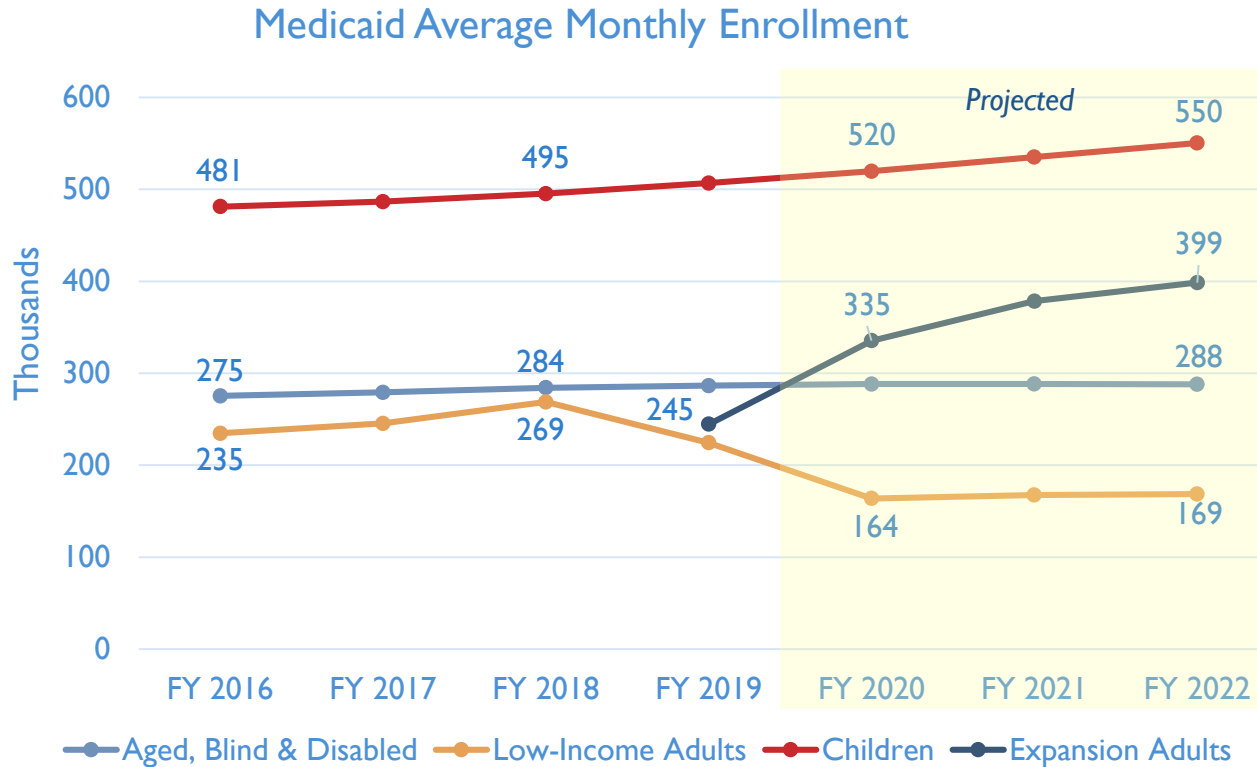


2020 Session Outlook for HHR Budget Pressures

Medicaid and Children's Health Insurance Programs

Enrollment and Spending Trends

Medicaid Enrollment Growth Higher Due to Expansion

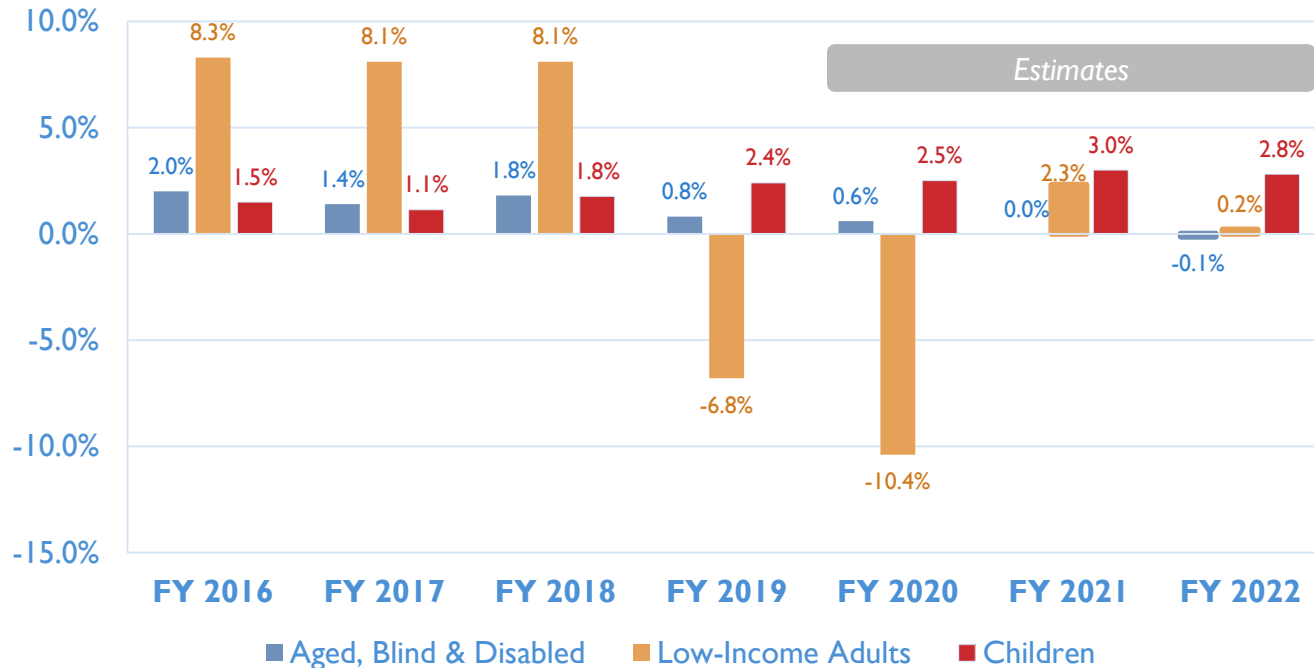


- FY 2019 total enrollment was over 1.1 million.
- Average growth per year was 3.8% prior to FY 2019.
- FY 2019 growth was higher at 8.8% due to Medicaid Expansion.
- Low-Income Adults and the Aged, Blind and Disabled categories either drop or stagnate due to shifts to the Expansion group.
- Enrollment is the primary cost driver of Medicaid.

Source: Department of Medical Assistance Services Monthly Enrollment Report and the 2019 Medicaid Consensus Forecast.

Expansion has Impacted Enrollment Growth Rates

Base Medicaid Average Monthly Enrollment Growth

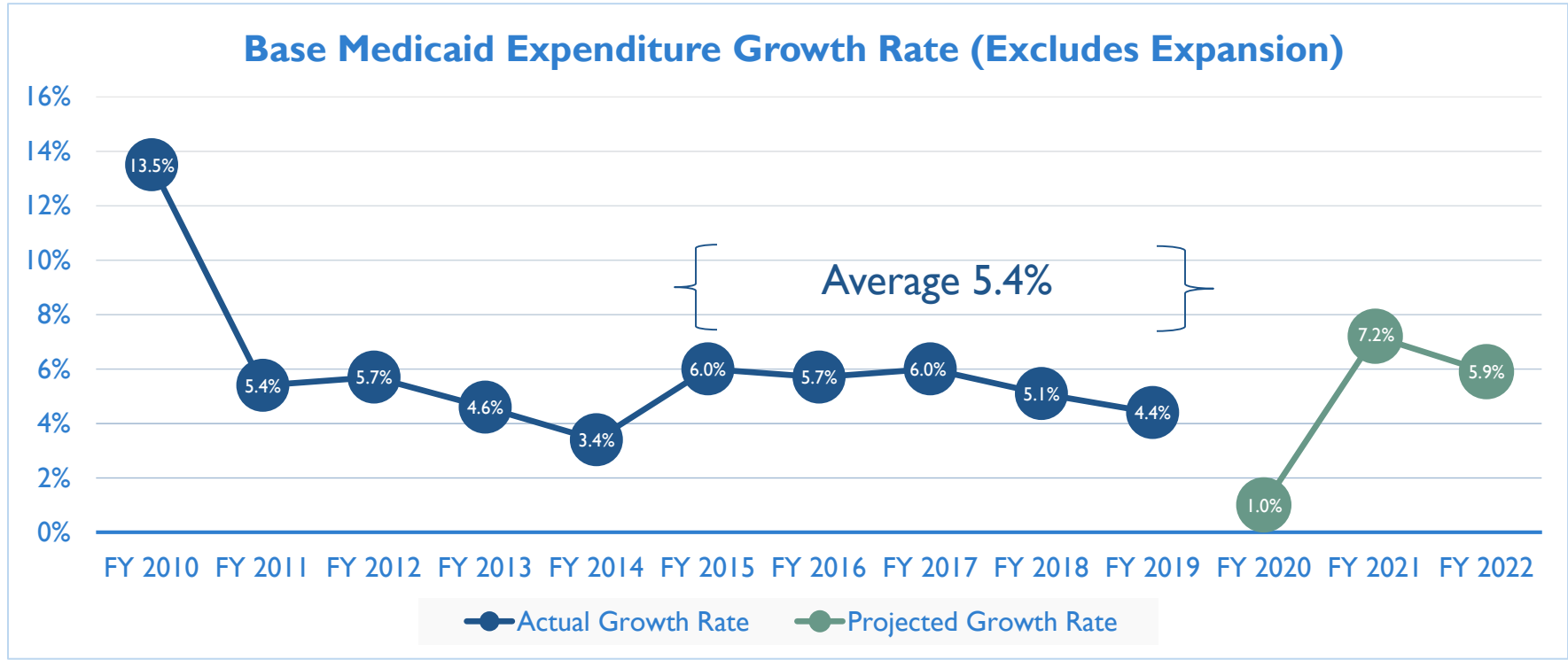


- **Low-Income Adults** growth rate most impacted by transition of adults to Expansion.
- **Aged, Blind and Disabled** growth rate stagnates.
- **Growth in Children** likely due to the **woodwork effect** of expansion.

Source: Department of Medical Assistance Services Monthly Enrollment Report and the 2019 Medicaid Consensus Forecast.

Note: Low-Income Adults excludes enrollment for the limited benefit Plan First program.

Recent Expenditure Growth has Averaged 5.4% and Expansion Limits Base Medicaid Growth in FY 2020



Note: Expenditures in FY 2011, FY 2012, FY 2015 and FY 2016 have been adjusted to reflect payment shifts between fiscal years in order to better reflect realistic expenditure patterns in the program.

Last Year's Forecast Required an Additional \$463 million GF

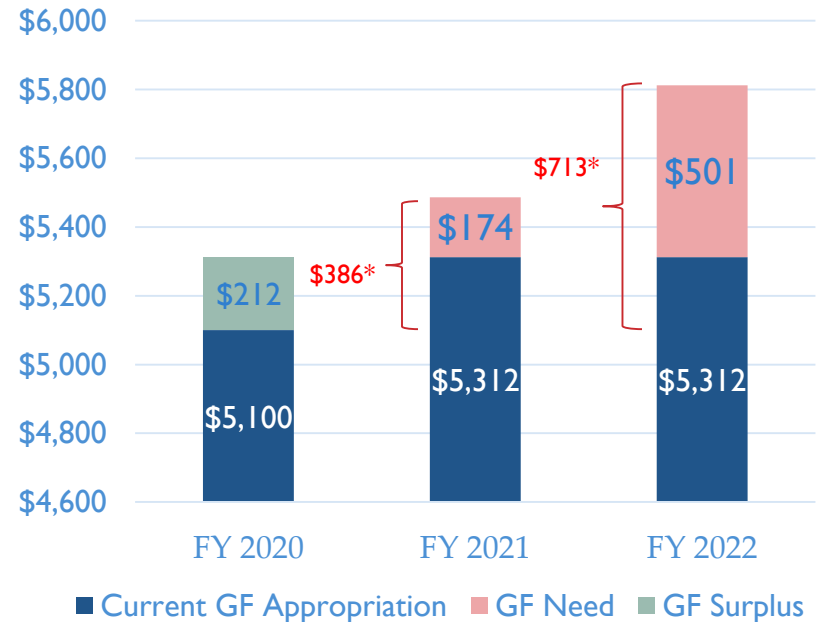
- The 2018 Medicaid Forecast required \$202 million GF in FY 2019 and \$260 million in FY 2020.
 - Main driver of the increase was adjustment of the rates for the state's long-term care managed care program to offset unrealistic savings assumptions.
- In FY 2019, Medicaid spending was lower, resulting in \$55.1 million in state funds remaining.
- The forecast variance for state funding in FY 2019 was about 1.1%.

2019 Medicaid Forecast Reflects Less Need for FY 2020 But Returns to Normal Growth Rate for the Biennium

- New forecast requires additional funding of **\$675 million GF** for 2020-2022 biennium.
- Forecast for FY 2020 reduces GF by **\$212 million** from the current appropriation.
- FY 2020 growth is lower in Base Medicaid due to Medicaid Expansion savings.
- If FY 2020 was not overfunded, the 2020-22 biennial forecast would have required \$1.1 billion GF.
- Base Medicaid spending is projected to increase by:

Fiscal Year	2020	2021	2022
2019 Forecast	1.0%	7.2%	5.9%
2018 Forecast	2.6%	3.5%	N/A

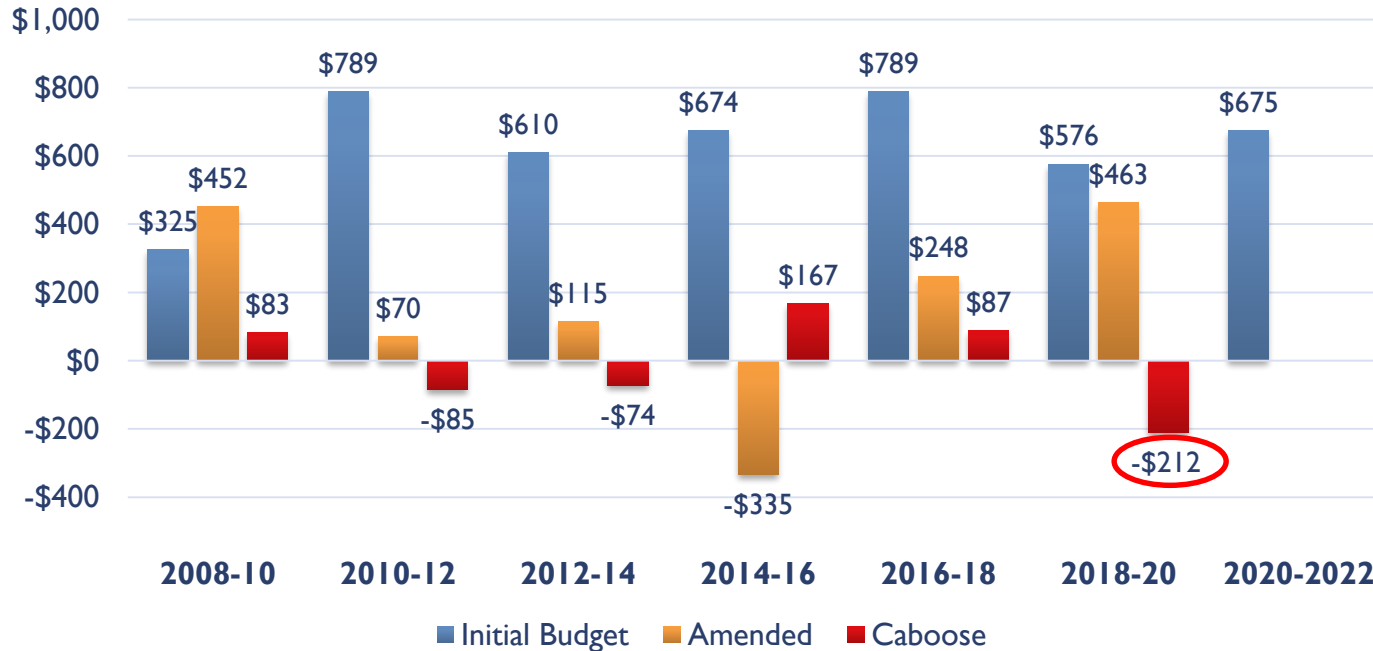
November 2019 Medicaid Forecast
(\$ in Millions)



* Note: FY 2020 lower base would have resulted in a GF need of \$1.1 billion.

FY 2020 Funding Variance is Largest Ever in a Caboose Bill

Medicaid GF Forecast Need by Biennium
(\$ in Millions)



Variance from
2018 Forecast
for state funds
is 4.0%.

Medicaid Spending Target was Created in the 2019 Session

- **Purpose:** To better inform decision-making by creating a benchmark to measure Medicaid spending growth compared to state revenue growth and increase transparency of cost drivers.
- Joint Subcommittee for Health and Human Resources Oversight establishes the target each fall for the next two fiscal years (this is the first year).
- FY 2021 target will be exceeded because the CCC Plus managed care program had a six-month rate increase in FY 2020 that is annualized in FY 2021.

	FY 2021	FY 2022
Medicaid Target	5.8%	6.0%
2019 Medicaid Forecast	7.2%	5.9%

Note: Rate enhancement payments to hospitals were excluded from the Medicaid Target calculation, along with the costs of Medicaid Expansion because significant growth in federal funding would otherwise distort the overall growth rate.

FY 2020 GF Savings Due to Expansion and Other Factors

- **Managed Care**

- Rates changed slightly.
- Shifting of disabled and low-income individuals from Base Medicaid to Medicaid Expansion reduces spending.

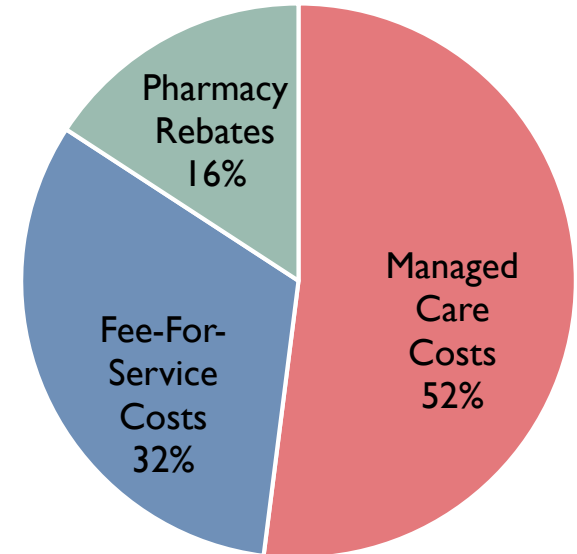
- **Fee-For-Service (FFS)**

- Higher-than-expected number of individuals transitioning from Base Medicaid to Expansion reduces spending.
- Last year's fee-for-service spending overestimated the expenditure shift to managed care due to the CCC Plus managed care program.
- Hospital lump sum payments are projected to be \$13.5 million GF higher and Medicare Premiums \$4.0 million GF higher.

- **Pharmacy Rebates**

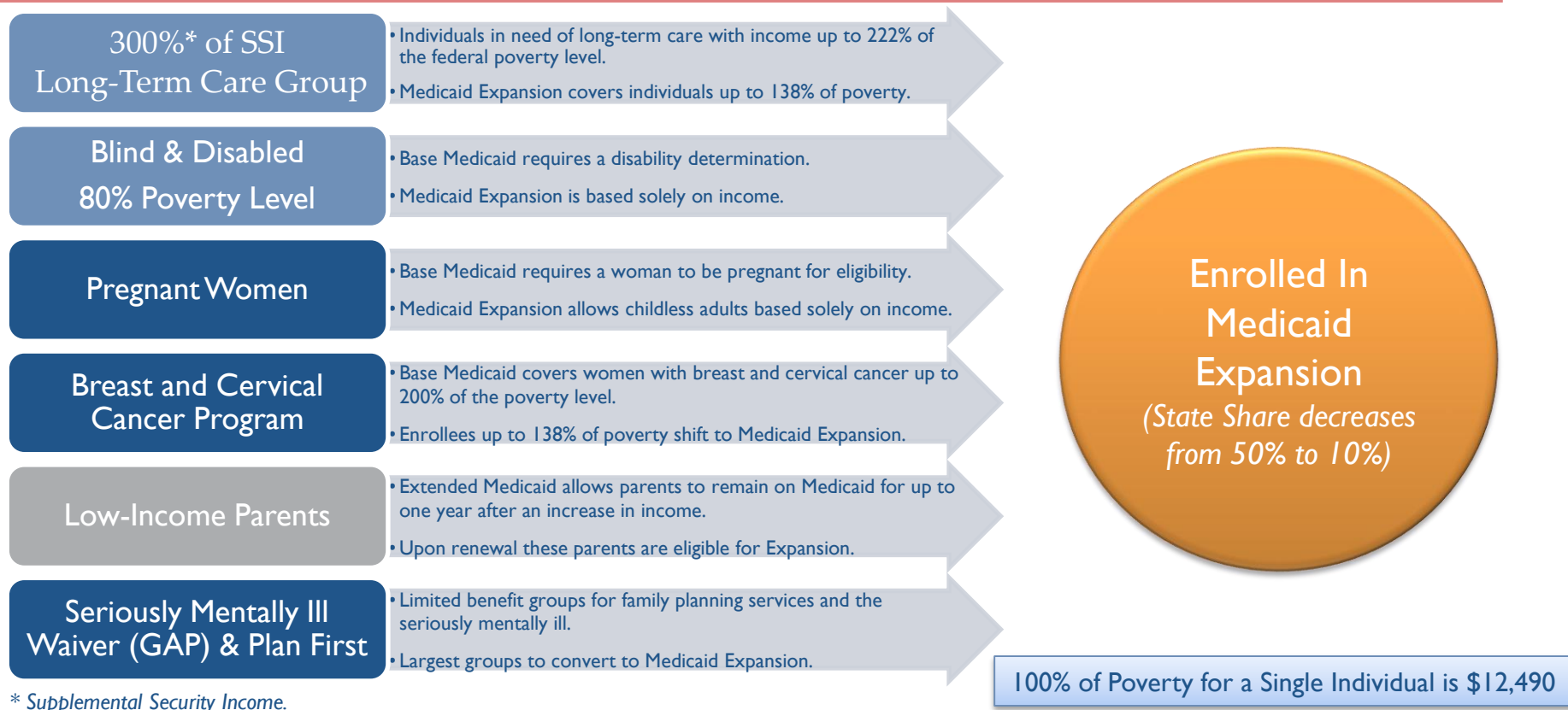
- Estimated to bring in \$33 million in GF savings.
- Last year's forecast assumed a decrease in rebates.

Sources of \$212 million
Medicaid GF Savings in FY 2020



Source: 2019 Official Medicaid Consensus Forecast.

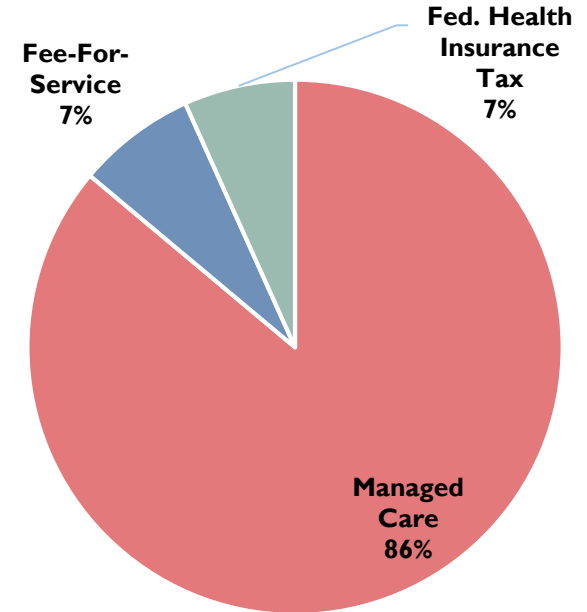
Enrollment Shifts from Base Medicaid to Expansion



2019 Forecast for FY 2021 & FY 2022 Largely Driven by Managed Care Rates

- **Managed Care**
 - Managed Care rates require \$576 million GF for CCC Plus and \$191 million GF for the Medallion program.
- **Fee-For-Service**
 - Inflation for hospitals adds \$59 million GF and nursing homes \$34 million GF costs.
 - Medicare premiums require \$60 million GF.
 - Lump-sum hospital payments require \$36.2 million GF for hospitals mainly driven by an increase in Indirect Medical Education (IME) costs.
- **Federal Health Insurance Tax**
 - \$60 million GF impact over the biennium.

Sources of \$675 million
Medicaid GF Need



Source: 2019 Official Medicaid Consensus Forecast.

Managed Care Rate Increases are Primary Driver

- Shift from fee-for-service to Medicaid managed care is intended to improve care coordination and cost-effectiveness of that care.
- Since CCC Plus started, the rate increases have been higher to catch up to more realistic rates for the populations served.

Managed Care Program	2019	2020	2021	2022
CCC Plus Rates	5.4%	5.2%	4.2%	4.5%
Medallion 4.0 Rates	-	3.5%	5.4%	5.4%

CCC Plus - The newer managed care program for long-term care services began in August 2017.

Medallion 4.0 - The traditional managed care program that covers mostly children and low-income adults. The new version of the program started August 1, 2018.

Note: Rates for Medallion 4.0 are set on a fiscal year basis. CCC Plus rates are set by calendar year, however, starting in FY 2021 the rates will be set on the state fiscal year.

Source: Department of Medical Assistance Services.

Additional Evaluation of Managed Care is Needed

Managed Care Program	2018	2019 (First Half)
CCC Plus Profit / Loss	(\$282.9 million)	(\$63.9 million)
Medallion Profit / Loss	\$39.2 million	\$12.8 million

Source: Bureau of Insurance.

- CCC Plus rates have mainly increased to reflect actual costs and to limit losses for the managed care organizations (MCOs).
- Medallion rates are being mainly driven by community behavioral health services for children.
- DMAS has added requirements, that have a fiscal impact, to the managed care contracts (outside the normal budget process).
 - Further evaluation of the managed care programs is necessary to ensure that appropriate flexibility is provided to improve outcomes and the cost effectiveness of care.
 - For example, do MCOs have enough flexibility to divert emergency room visits?

Enhanced Transparency in Medicaid Forecasting and Monitoring is Still Needed

- Transparency and Evaluation
 - Some improvements to the forecasting process over the past year.
 - Transparency and evaluation of assumptions need improvement.
- Create a Medicaid Forecasting Workgroup
 - Would meet regularly to review and provide feedback on assumptions used in developing the forecast.
 - Include staff from:
 - Department of Medical Assistance Services;
 - Department of Planning and Budget; and
 - House Appropriations and Senate Finance Committees.
- Conduct a detailed quarterly review of Medicaid spending to review the performance of the forecast in order to improve transparency and accuracy.

Medicaid Expenditures (Total Funds) to Forecast Variance:

FY 2019 – 3.5%

FY 2018 – 2.0%

FY 2017 – 0.2%

FY 2016 – 0.7%

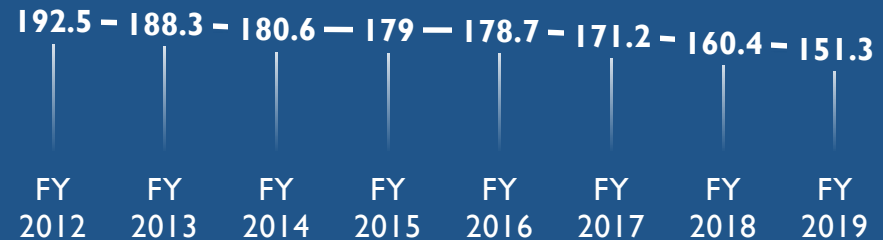
FY 2015 – 1.4%

Health Care Fund

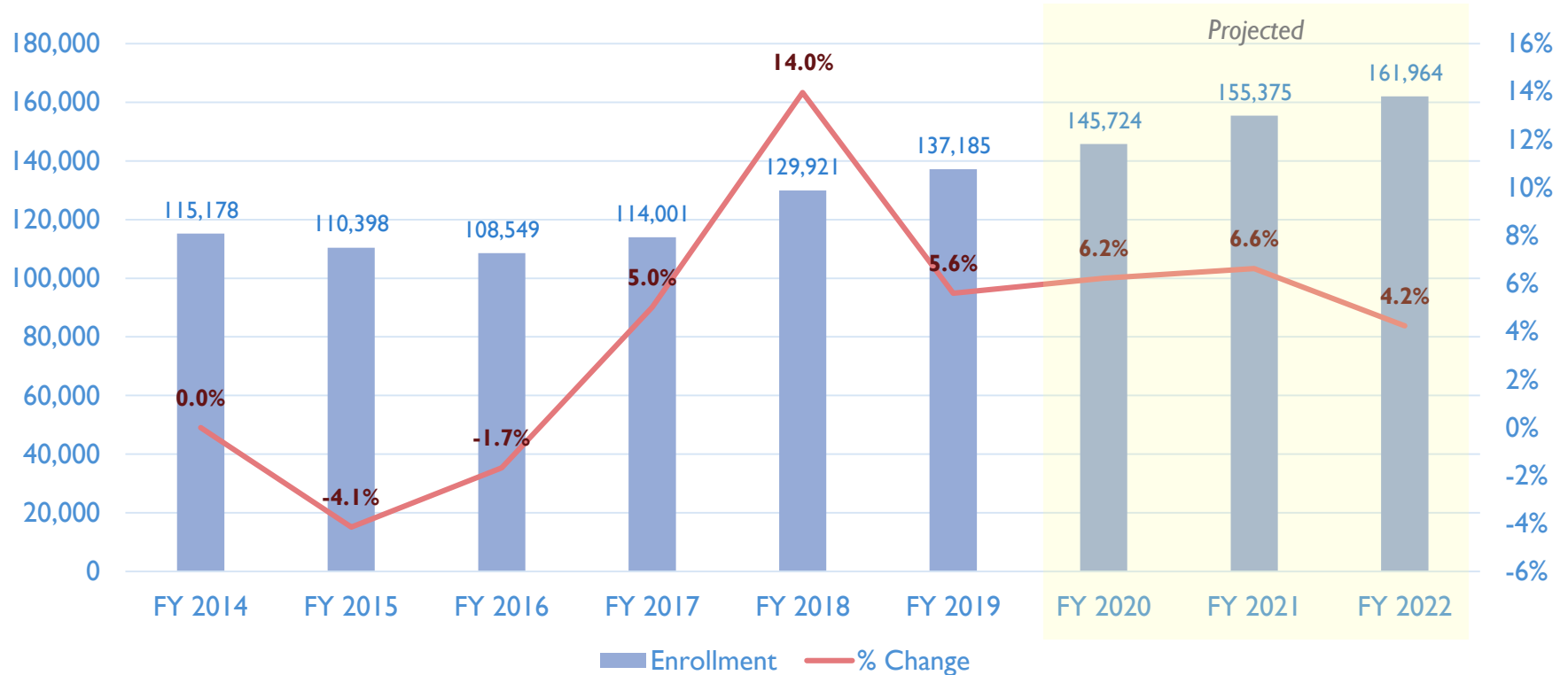
- Used as state match for Medicaid program.
- Revenue sources include:
 - Tobacco taxes;
 - 41.5% of Master Settlement Agreement with Tobacco Manufacturers;
 - Medicaid Recoveries / Pharmacy Rebates; and
 - Smoking Civil Penalties.
- Tobacco taxes continue to be a declining revenue source.
- FY 2019 year-end cash balance was \$53.1 million.

Revenue Changes (\$ in Millions)	FY 2020	FY 2021	FY 2022
Prior Year Cash Balance	\$53.1	\$0	\$0
Tobacco Taxes	-	-8.6	-16.6
Net Impact	\$53.1	\$-8.6	\$-16.6

TOBACCO TAX REVENUE (\$ IN MILLIONS)

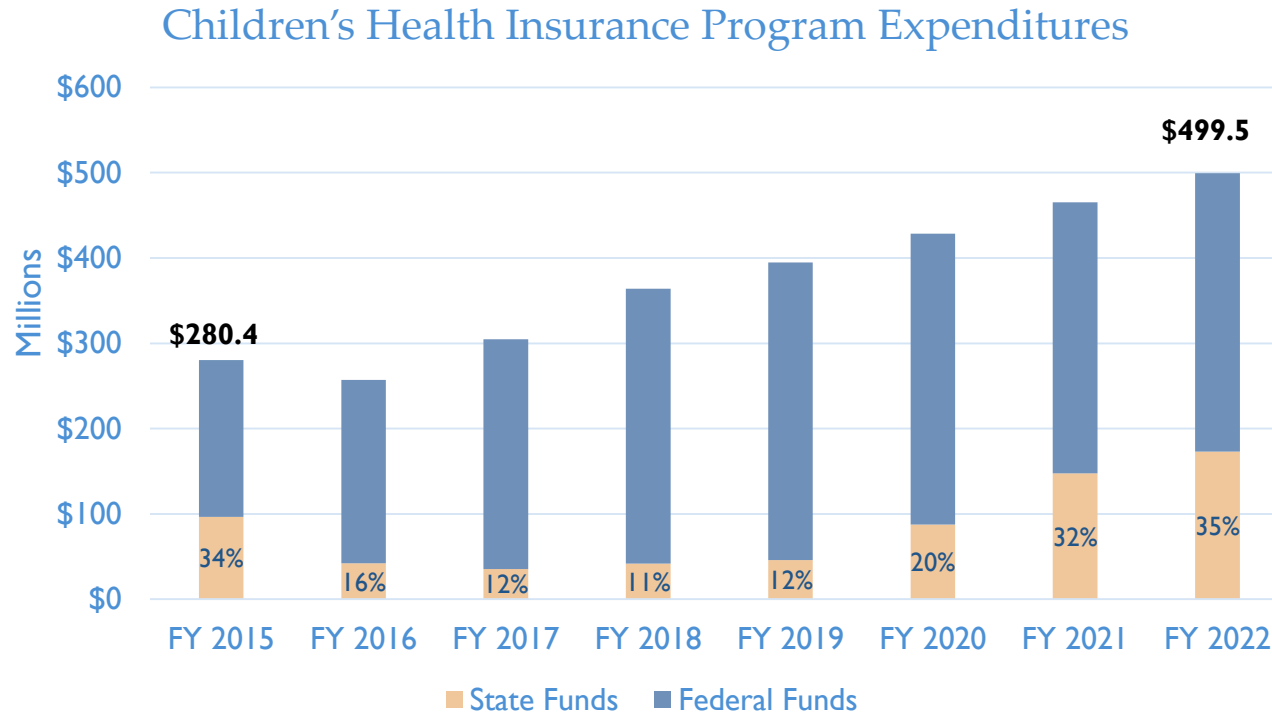


Children's Health Insurance Program (CHIP) Enrollment Growth Expected to Continue



Source: Department of Medical Assistance Services Monthly Enrollment Report and the 2019 Official Medicaid Forecast Population Estimates.

Restoration of Normal Federal Match Rate for CHIP Requires State Funding of Over \$114 million GF

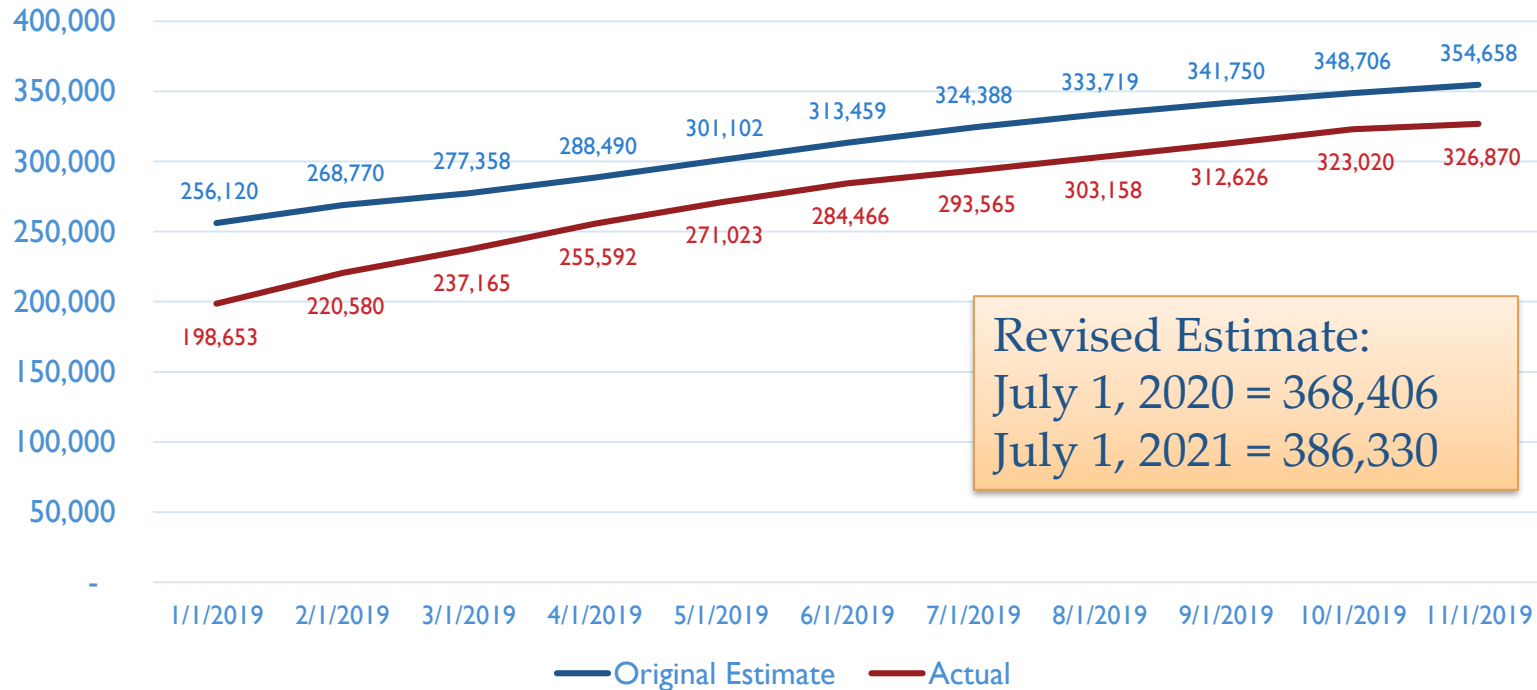


- Affordable Care Act increased the federal match rate for CHIP from 65% to 88% from October 1, 2015 through September 30, 2019.
- Congress provided bridge funding for one additional year with the match rate at 76.5%.
- Restoration of the match rate requires \$114 million GF over the biennium.
- Additional enrollment growth and managed care rates increases likely add \$35 million in GF costs.

Medicaid Expansion

Implementation Update

Medicaid Expansion Enrollment Is Catching up to Projections



Source: DMAS Monthly Enrollment Report and the 2019 Official Medicaid Forecast.

Estimated Medicaid Expansion State Costs and Savings

Item (\$ in millions)	FY 2019 Est. State Impact	FY 2019 Actual State Impact*	FY 2020 Est. State Impact
Coverage of Newly Eligible Adults	\$70.5	\$60.2	\$276.9
Administrative Costs (DMAS and DSS)	15.7	13.1	16.3
1115 Waiver Administrative Costs	1.7	-	5.4
<u>Total Costs</u> (<i>Paid by Hospital Provider Assessment</i>)	<u>\$87.9</u>	<u>\$73.3</u>	<u>\$298.6</u>
Indigent Care Savings	(\$47.5)	TBD	(\$110.3)
State-Funded Behavioral Health Services	(11.1)	TBD	(25.0)
Inpatient Hospital Costs of State Prisoners	(10.3)	TBD	(23.4)
Elimination / Substitution of State-funded Coverage for Newly Eligible	(32.4)	TBD	(111.0)
<u>Total Savings</u>	<u>(\$101.3)</u>	<u>TBD</u>	<u>(\$269.7)</u>

* The actual state savings from Medicaid Expansion is still being assessed and not yet available.

Source: Chapter 854, 2019 Acts of Assembly.

Medicaid Expansion Implementation Considerations

- **Provider Rates**

- General Assembly provided an increase in the 2019 Session to certain physicians to be paid at least 70% of Medicare rates.
- Additional rate increases may be necessary to ensure appropriate provider access.

- **1115 Waiver Status**

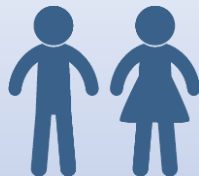
- Negotiations between the Department of Medical Assistance Services (DMAS) and the Centers for Medicare and Medicaid Services (CMS) have continued, but no approval has been granted.
- CMS has indicated that they will not provide federal funding for employment support services, but will provide federal funding for housing supports for individuals with serious mental illness.

- **Maximizing State Savings from Expansion**

- Tracking the savings achieved by the state is important to ensure the Commonwealth is maximizing savings.
- Savings from the Department of Corrections (DOC) from inpatient hospital costs are still being assessed as 7,000 of 30,000 inmates have been enrolled in Medicaid.
 - The General Assembly could consider providing authority for DOC to sign Medicaid applications on behalf of inmates to reduce the number of refusals.
- Savings for Community Services Boards appear to be meeting projections.

Two Hospital Provider Assessments

Coverage Assessment



Covers the full cost of expansion.
Expected to be approximately
0.5% in FY19 and 1.6% in FY20.

Payment Rate Assessment



Covers the state cost of increasing hospital
reimbursement rates to approximately
average cost. Rate projected to be 1.6% in
FY19 and 2.8% in FY20.

**Two
assessments
with basically
the same
features**

- Assessed on most private acute hospitals – excludes public, freestanding psychiatric, rehabilitation, children's, long-stay, long-term acute, and critical access hospitals.
- Dept. of Medical Assistance Services responsible for calculating and levying the assessment.
- Assessments are a percentage of net patient revenue.
- Total of the two assessments cannot exceed 6% of net patient revenue (Federal limit).

Medicaid Expansion and the Enhanced Payment Rate Increase

Net Medicaid Revenue to Private Hospitals

(\$ in millions)	FY 2019 Actual	FY 2020 Estimate	FY 2021 Estimate	FY 2022 Estimate
Coverage Assessment	\$88.7	\$260.9	\$372.4	\$404.8
Payment Rate Assessment	152.4	444.7	477.1	501.0
Total Assessment Paid by Private Hospitals	\$241.1	\$705.6	\$849.5	\$905.8
Revenue from Coverage Expansion <i>(Estimated)*</i>	\$284.0	\$1,013.9	\$1,230.5	\$1,337.4
Revenue from Medicaid Enhanced Payment Rate	463.6	1,153.8	1,263.4	1,326.6
Total Revenue to Private Hospitals	\$747.9	\$2,167.7	\$2,493.9	\$2,664.0
Net Revenue Impact for Private Hospitals	\$506.8	\$1,462.1	\$1,644.4	\$1,758.2

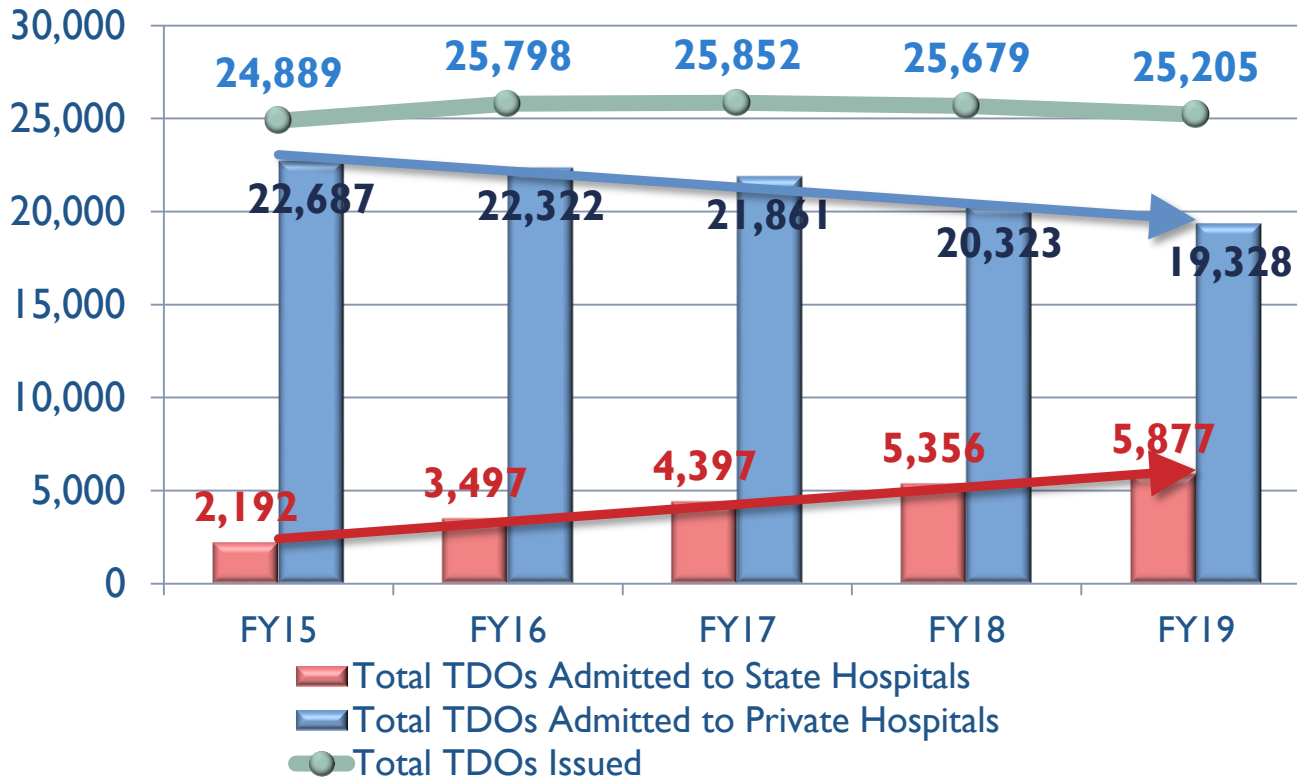
Source: SFC staff analysis of Medicaid forecast and Department of Medical Assistance Services estimates.

** Assumes hospital costs similar to low-income parent population since there is insufficient data from the Expansion population to make such estimates.*

Behavioral Health System Pressures

State Psychiatric Hospital Census
Pressures and Improving
Community-Based Services

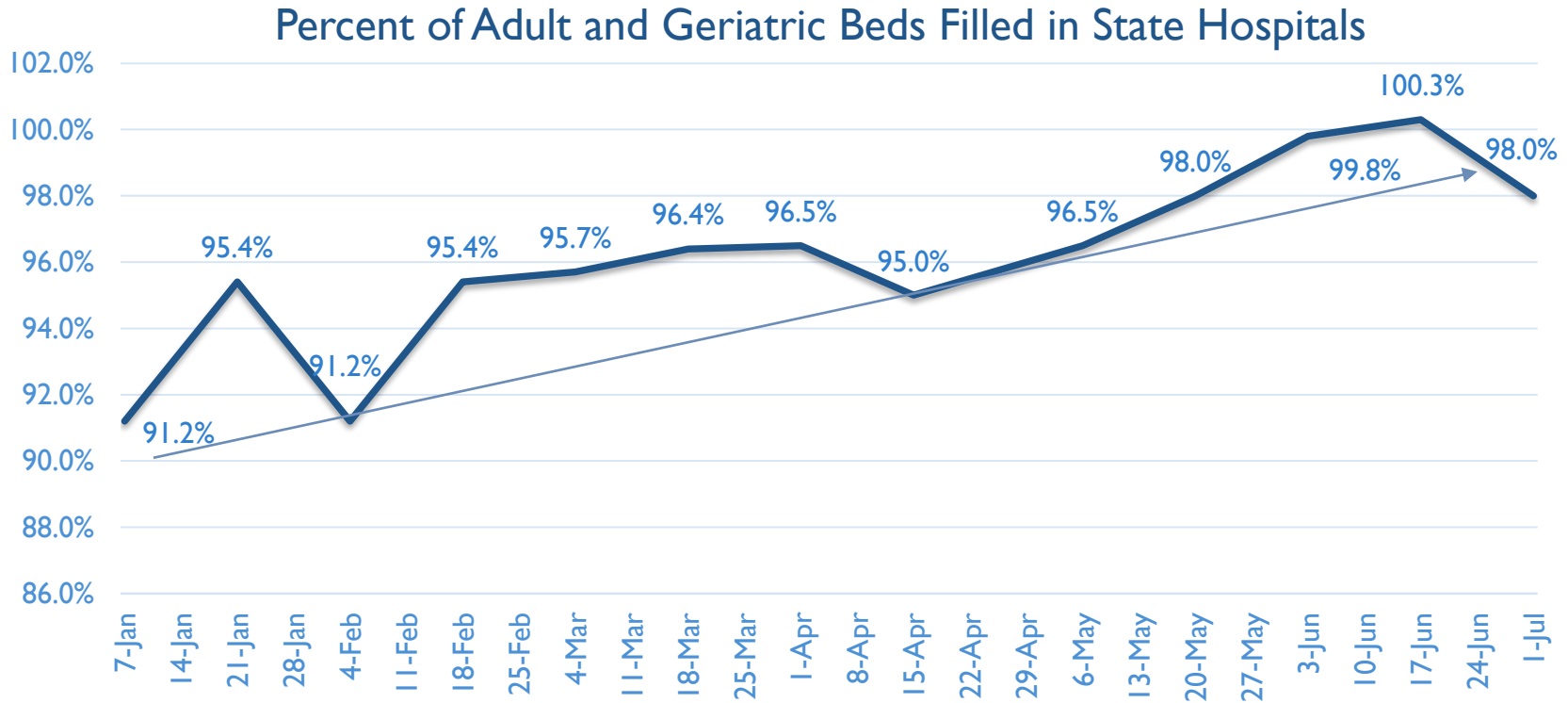
Statewide Temporary Detention Orders (TDOs) Have Levelled Off but Private Hospitals Are Taking Fewer Each Year



- Statewide TDOs are fairly level.
- There has been dramatic growth in TDOs admitted to state hospitals and an equally decreasing number of TDOs at private hospitals.
- Private hospitals admitted 77% of TDOs in FY19 compared to 91% in FY15.
- 70% of admissions to state hospitals are civil TDOs.

Source: Department of Behavioral Health and Developmental Services.

Recent State Hospital Trends Have Added More Census Pressure

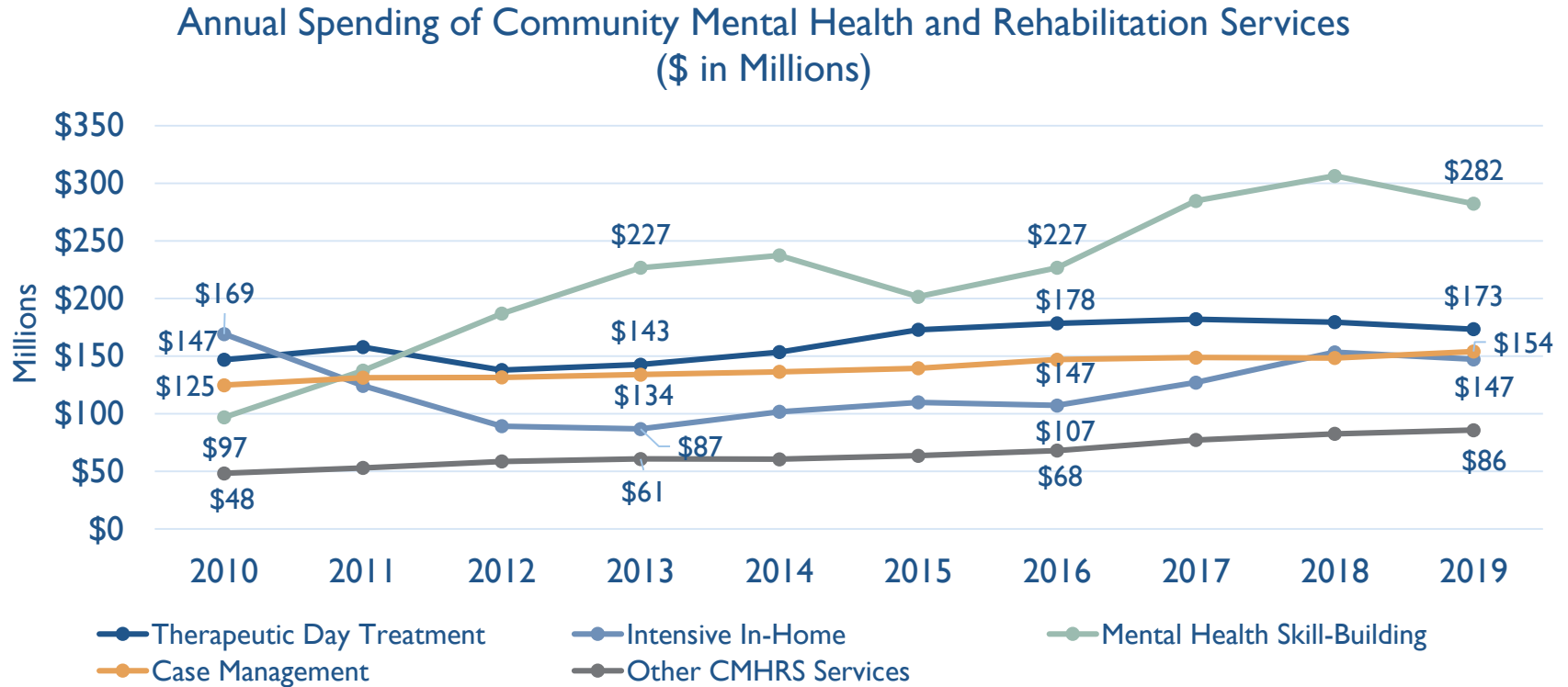


Source: Department of Behavioral Health and Developmental Services.

Census Pressure at State Hospitals is a Critical Issue

- State Hospitals Operating at Near 100% Plus Capacity
 - Normal capacity is 85 – 90%.
 - Increasing concerns regarding the impact on patient care and staff safety.
 - State hospitals are intended for longer term treatment of individuals with serious mental illness, not TDO evaluations.
- Short-Term Relief Options:
 - Increasing private hospital participation is critical.
 - Consider financial incentives to encourage private hospital participation.
 - Investment in immediate community resources to divert TDOs and bring individuals out of the state hospitals should be a priority.
 - Behavioral Health Redesign, STEP-VA and/or additional beds at state hospitals are longer-term solutions.

Medicaid Behavioral Health Services Have Been a Cost Driver



Source: Department of Medical Assistance Services.

Proposed Behavioral Health Redesign Moves Toward Evidence-Based Services but Requires Upfront Funding

Service (\$ in Millions)	Current Costs	FY 2021	FY 2022
Assertive Community Treatment (PACT)	\$14.8	\$24.9	\$29.6
Multi-Systemic Therapy*	-	2.8	3.2
Functional Family Therapy*	-	1.4	1.5
Intensive Outpatient*	-	0.2	8.0
Partial Hospitalization	0.4	0.9	1.5
Crisis Services:			
Crisis Intervention	4.8	1.1	7.4
Community-Based Crisis Stabilization	21.3	21.8	21.8
23-Hour Observation*	-	0.4	0.9
Crisis Stabilization Unit*	-	6.9	6.9
Total Costs	\$41.3	\$60.5	\$80.8

* New service to be covered by Medicaid.

Behavioral Health Redesign Expected to Cost \$25 million GF Over the Biennium; Workforce Issues Will Need to Be Addressed

- Phase One of the Medicaid Behavioral Health Redesign is expected to cost \$25 million GF in the 2020–2022 biennium.
- Phase Two and Three services would be brought on in future years.
- One major challenge will likely be the behavioral health workforce to provide these new services.
- A new Medicaid waiver is available that would infuse new federal dollars and replace GF-only funds currently used to support state psychiatric hospitals.
- This new waiver requires states to demonstrate availability of a comprehensive continuum of evidence-based community mental health services prior to an 1115 waiver application.

(\$ in Millions)	FY 2021	FY 2022
General Fund	\$8.1	\$16.7
Non-General Funds	11.1	22.8
Subtotal	19.2	39.5
Cost of Two Positions	0.4	0.4
Budget Request	\$19.6	\$39.9

STEP-VA Implementation Status and Funding Need to Build Out

STEP-VA Service	Implementation Requirement	Status	Funds Allocated
Same Day Access	July 1, 2019	100% Implementation: March 2019	\$10.8M
Primary Care Screening	July 1, 2019	Launched: July 1, 2019	\$3.7M FY19 \$7.4M FY20
Crisis Services	July 1, 2021	Detox Services Launched: August 2019	\$2M FY20
		Crisis Services Launched: October 2019	\$7.8M FY20
Outpatient Services	July 1, 2021	Launched: July 1, 2019	\$15M FY20
Psychiatric Rehabilitation, Peer/Family Support Services, Veterans, Care Coordination, Case Management (Adults and Children)	July 1, 2021	Planning Began 4thQ FY19	<i>Estimate of ~ \$140M to Complete</i>

Outlook of HHR Budget Pressures

2020 Session

Mandatory HHR Funding Items (\$ in Millions)

Budget Item	FY 2021	FY 2022	Biennial Total
Children's Health Insurance Programs <i>- Federal match rate change is primary driver and some enrollment growth.</i>	\$61.5	\$87.0	\$148.5
STEP-VA <i>- Estimate to fund the remaining steps.</i>	61.1	78.1	139.2
DOJ Settlement: Waiver Slots and Compliance <i>- Required slots and additional funds to comply with the agreement.</i>	25.4	35.9	61.3
Children's Services Act <i>- Private day placements and foster care are increasing.</i>	10.8	22.3	33.1
Social Services: SNAP Error Rate Repayment and Child Welfare Forecast	10.3	14.3	24.6
Catawba Hospital: Additional 56 Beds <i>- Costs related to administration's expansion to handle census pressures.</i>	9.4	10.4	19.8
Virginia Center for Behavioral Rehabilitation: Operating Costs of Expanded Facility	4.1	14.6	18.7
Part C Early Intervention Services	3.1	4.4	7.5
State Savings from Training Center Closures	(14.0)	(30.1)	(44.1)
Grand Total	\$171.7	\$236.9	\$408.6

HHR Budget Outlook - Key Takeaways

- Estimated state savings from Medicaid Expansion appears greater than expected, but base Medicaid resumes normal growth after FY 2020.
- Medicaid forecasting process still requires additional improvements.
- Managed care rate increases are a major driver of Medicaid costs and require further evaluation.
- Census pressure on state mental health hospitals is a critical issue.
- Behavioral Health Redesign and STEP-VA are longer-term strategies to improve the community-based system of care.